Joint Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Federal Housing Finance Agency
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision
Securities and Exchange Commission

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Agencies Seek Comment on Proposed Rule on Incentive Compensation

Federal financial regulatory agencies request comment on a joint proposed rule to ensure that regulated financial institutions design their incentive compensation arrangements to take account of risk.

The proposed rule, which is being issued pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, would apply to certain financial institutions with more than $1 billion in assets. It also contains heightened standards for the largest of these institutions.

In prohibiting incentive compensation arrangements that could encourage inappropriate risks, the proposal would require compensation practices at regulated financial institutions to be consistent with three key principles--that incentive compensation arrangements should appropriately balance risk and financial rewards, be compatible with effective controls and risk management, and be supported by strong corporate governance. The proposed rule complements guidance previously issued by the agencies, including guidance on sound incentive compensation policies issued by the banking agencies last year.

The agencies are proposing that financial institutions with $1 billion or more in assets be required to have policies and procedures to ensure compliance with the requirements of the rule, and submit an annual report to their federal regulator describing the structure of their incentive compensation arrangements. The agencies are proposing that larger financial institutions, generally those with $50 billion or more in assets, defer at least 50 percent of the incentive compensation of certain officers for at least three years and that the amounts ultimately paid reflect losses or other aspects of performance over time. For purposes of credit unions, large financial institutions would be defined as those with $10 billion or more in assets. The FHFA proposed that the income-deferral provisions apply to all entities it regulates, regardless of size.

The agencies request comments on the proposed rule within 45 days of its publication in the *Federal Register*, which is expected soon.

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Attachment

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